

1 CHAIRMAN JAMES: At this time, I'd like to encourage  
2 the panelists to engage in a dialogue with each other and with  
3 commissioners as well. And I want to -- John, I will get back to  
4 you in just a minute. I'm going to go over to Commissioner  
5 Leone. And please, if you feel like you want to step in, feel  
6 free to do that. I'm sorry. McCarthy. What did I say?

7 COMMISSIONER McCARTHY: Mr. Ader, do I have your  
8 pronunciation of your name correct?

9 MR. ADER: Correct.

10 COMMISSIONER McCARTHY: Just a few short questions.  
11 How many publicly traded gambling corporations are there, all  
12 forms? Do you know offhand?

13 MR. ADER: Yes. It's between 90 and 100 and that --

14 COMMISSIONER McCARTHY: I'm not talking just casino;  
15 I'm talking all forms.

16 MR. ADER: So that includes horse racing, lotteries,  
17 lottery equipment companies?

18 COMMISSIONER McCARTHY: Okay. Of those 90 to 100,  
19 how many are casino corporations?

20 MR. ADER: When you say casino corporations --

21 COMMISSIONER McCARTHY: They derive the bulk of their  
22 profit from the operation of casinos.

23 MR. ADER: I'd say about --

24 COMMISSIONER McCARTHY: Not race tracks, not jai  
25 alai, not --

26 MR. ADER: -- 20 to 25 in total.

27 COMMISSIONER McCARTHY: Okay. What has been, if you  
28 know, the average profit of the casino corporations over the last

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1 three years, five years, whatever period your firm may do its  
2 analysis embracing?

3 MR. ADER: How are you defining profit? Net profit  
4 after --

5 COMMISSIONER McCARTHY: You tell me how you normally  
6 define profit when you give those reports to your clients.

7 MR. ADER: Well, you know, the profit, from our  
8 perspective, would be net income after tax after depreciation.

9 COMMISSIONER McCARTHY: Right.

10 MR. ADER: And you know, we obviously look at it by  
11 market, and then in aggregate, if we were to look it up -- if you  
12 were to -- if I were to give you my best estimate, you know, of  
13 every publicly traded casino company in terms of what they  
14 generate in profits, it's probably \$6 to 7 billion range.

15 COMMISSIONER McCARTHY: And that's not -- that's  
16 after taxes, after depreciation.

17 MR. ADER: That would be everything.

18 COMMISSIONER McCARTHY: After everything. One final  
19 question to you, sir. Do you have a list of all institutional  
20 investors, public and private, that invest in gambling  
21 corporations?

22 MR. ADER: I could absolutely get it for you. I  
23 don't have it on me but it's very publicly available.

24 COMMISSIONER McCARTHY: That's fine. Would you mind  
25 providing that to us? We'd appreciate it very much.

26 MR. ADER: Sure.

27 COMMISSIONER McCARTHY: Thank you. Dr. Ryan, I  
28 appreciate your comments because this is a complex question and,  
29 of course, there are people who benefit or suffer from gambling

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1 that will speak from the heart and from their need to support  
2 themselves and their families on either side of this issue.

3 But we're asked to try to come up with a body of  
4 information that will make the public more informed in making  
5 these decisions in the future as to whether to initiate or expand  
6 or terminate gambling in different legal forms in their states.  
7 And it's tough getting at this issue because of its complexity.

8 So the question I wanted to put to you, if you wish  
9 to take a stab at answering it now, that's fine, but I would  
10 really appreciate your reducing this to writing. If this  
11 commission were going to authorize some studies on the most  
12 essential questions on economic growth, what -- how would you  
13 frame that study, if you would?

14 If you want to answer it in part now, but if you'd  
15 give it to me --

16 DR. RYAN: I mean, the simple answer is the question  
17 that both Professor Thompson and I talked about, is where the  
18 dollars come from. Looking at an analysis of -- going back to  
19 the source of the gambling dollars to then figure out what kind  
20 of displacements there are in the economy and what the net  
21 impact.

22 Now, that's excluding the social cost of gambling but  
23 just looking purely at the economic, that's how I would frame the  
24 question.

25 Now, obviously, that requires a lot more thought than  
26 that but that's where we have to hone in on, I believe, not the  
27 question -- I mean, some of these questions -- job training --  
28 every industry that I know of in today's world -- and I've worked

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1 with quite a few of them -- is putting a tremendous investment on  
2 job training in today's economy. That's what you have to do.

3 So I don't -- to focus on does the gambling industry  
4 provide more job training than the shipbuilding industry, than  
5 the retail trade industry, than the insurance industry, to me is  
6 really sort of a no-brainer. You know, if we find the answer to  
7 that, I'm not sure what we can do with it.

8 So I would focus, from an economic point of view,  
9 where the dollars come from in terms of looking at the net  
10 investment and net economic activity that could be created.

11 COMMISSIONER McCARTHY: All right. If you wouldn't  
12 mind framing that in writing --

13 DR. RYAN: I will attempt to do that.

14 COMMISSIONER McCARTHY: -- whether it's three pages  
15 or ten pages or whatever you think it should be, we would  
16 appreciate receiving that.

17 Finally, if I may, Mr. Comer, I read both reports  
18 that your company issued, the macroeconomic study, December '96,  
19 I think it was, and then seven months later the microeconomic  
20 study. In the macroeconomic study, you said this study makes no  
21 attempt to analyze the socioeconomic effects of casino gambling  
22 because such effects are largely based on anecdotal evidence, et  
23 cetera.

24 And then I noticed in the microeconomic study, which  
25 included this area among three areas, there really wasn't much in  
26 there either about the, what Professor Thompson referred to as  
27 the negative externalities which we should be gaining an  
28 understanding of to weight against the positive externalities.

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1 I'm already satisfied that people who get jobs and  
2 elevate their standard of living, that's a positive externality.  
3 What we're also trying to find out is what are the negative  
4 externalities.

5 Now, I know -- I'm not sure your staff would normally  
6 be researching the so-called social costs or negative  
7 externalities. I'm not sure you were even asked to by the  
8 American Gaming Association who commissioned you to do your  
9 study. Were you?

10 MR. COMER: We were not engaged to look at either the  
11 positive externalities or the negative externalities. In the  
12 positive externalities, I tried to make the point -- and I must  
13 have done a poor job -- in saying that the job, just the fact  
14 that somebody has a job doesn't measure the positive externality.

15 What is the benefit to our society if somebody's  
16 child grows up and has a job in the future versus going to  
17 prison? What is the positive externality of somebody who has a  
18 healthy child and the cost that society doesn't have to bear for  
19 the next 75 years?

20 COMMISSIONER McCARTHY: You made that case clearly  
21 and I understood your point so there wasn't any ambiguity about  
22 that.

23 MR. COMER: So we weren't -- we were not engaged to  
24 study either one of those, either positive --

25 COMMISSIONER McCARTHY: Well -- but you did address  
26 positive externalities --

27 MR. COMER: No.

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1 COMMISSIONER McCARTHY: -- by merely raising the  
2 questions that you just did. The answer is implied. There is a  
3 positive benefit.

4 MR. COMER: But we don't know the amount. That's  
5 correct.

6 COMMISSIONER McCARTHY: Well, is it your view that  
7 there is no way to measure positive or negative externalities?  
8 We've had plenty of testimony before this committee from people  
9 who tell us what getting a good paying job meant to them and  
10 their families, how it changed their lives in very specific  
11 terms.

12 MR. COMER: But they didn't -- but sir, they did not  
13 measure, okay -- and do I think there's a way? Yes, I think that  
14 there's -- I think that there may be a way to measure those. The  
15 point is, is that I think it would be a significant amount of  
16 work and we weren't asked to do that.

17 COMMISSIONER McCARTHY: Okay. That's all I'm  
18 asking --

19 MR. COMER: Yes.

20 COMMISSIONER McCARTHY: -- because from the  
21 statements you made in your study, including even your  
22 statements, and your testimony was this morning, it sounded like  
23 maybe you were asked but you reached the conclusion that there  
24 was really no -- it was anecdotal information, there was really  
25 no way to ever measure that.

26 So I just wanted to clear that up. Thank you.

27 CHAIRMAN JAMES: Commissioner Lanni?

28 COMMISSIONER LANNI: Dr. Ryan, if I may, a couple of  
29 comments. One, you indicated that obviously gambling is

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1 addictive and you indicated the percentages, whatever they are,  
2 from three-tenths of one percent to 1.3, 1.6 percent. I have a  
3 question. What human activity, in your mind, is not potentially  
4 addictive?

5 DR. RYAN: I'm an economist. I don't know. I guess  
6 there are a lot. I was just going to say I don't think I'm  
7 addicted to work but I just --

8 COMMISSIONER LANNI: I don't mean you as an  
9 individual. I'm saying human beings.

10 DR. RYAN: I don't know if any of us are although I  
11 just talked to somebody who claims he was.

12 COMMISSIONER LANNI: What activity is potentially  
13 not --

14 DR. RYAN: I'm not qualified to answer that question.  
15 Clearly there are some things that addictive -- addiction that  
16 can be more problems. We're all probably addicted to food. Some  
17 of us go overboard. There can be additional problems.

18 DR. THOMPSON: I'd like to comment. I'd rather live  
19 in a neighborhood with a compulsive gambler than a drunk driver.  
20 But there might be an assumption, and I see it implied in some of  
21 these studies, that gambling addiction replaces drunk driving.

22 In our studies of people in treatment, we found a  
23 very high number of cross-addicted people and that compulsive  
24 gamblers were much more likely to be alcoholics and have drug  
25 dependency problems than other people.

26 So we all have to have some addictive outlet. If we  
27 have a certain personality, genetic structure, but it's not that  
28 gambling will substitute for all the other addictions. Gambling  
29 will add to other addictions in most cases.

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1 COMMISSIONER LANNI: One further question of Dr.  
2 Ryan, if I may. You indicated that there may be legislation that  
3 would be an answer to the addictive problems relative to tobacco.  
4 I'm at a loss to understand.

5 DR. RYAN: I didn't know the answer. There may be  
6 legislation that's going to try to address that problem.

7 COMMISSIONER LANNI: I was confused. I thought you  
8 were saying basically that legislation might deal with addictive  
9 behavior and I'm not so sure that legislation is effective.

10 DR. RYAN: No. Legislators quite often think they  
11 can deal with a lot of behavior that they can't, and I think  
12 tobacco, just raising the taxes on what we quote, call a sin tax  
13 in order to discourage consumption is a legislation trying to  
14 deal with that addictive problem. That's all I meant.

15 COMMISSIONER LANNI: Thank you, Dr. Ryan.

16 CHAIRMAN JAMES: What's your opinion of that  
17 otherwise, Dr. Ryan, as an economist?

18 DR. RYAN: It can be effective to an extent.  
19 Whenever you raise the price of something, you will reduce the  
20 demand to an extent. You won't eliminate the problem by any  
21 means.

CHAIRMAN JAMES: Yes, Dr. TU -25'.

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1 He's certainly saying if you gamble you're not  
2 spending the money on something else. And he talked about the  
3 Lexus and I addressed that in my report. If we're gambling on,  
4 rather than spending money on a foreign product, we're keeping  
5 the money in our economy, we're holding it longer.

6 But when I interviewed 698 people in Wisconsin, ten  
7 percent said if they weren't gambling they would spend the money  
8 in the grocery store and 25 percent said they would spend it on  
9 clothing.

10 Now, those monies can spin out of the economy as well  
11 but I don't think for most of the gamblers in the United States,  
12 the alternative is a Lexus or a computer. I think it's a product  
13 that is a domestic product.

14 By saying it's a wash, I'm just saying that this is  
15 all within the domestic market. I really would dispute the 19  
16 percent of Las Vegas money being foreign money. That's about --  
17 equates with the California money gambling in Nevada and the  
18 numbers would be twice the numbers of all the conventioners  
19 coming to Nevada.

20 And I don't think the foreign presence in Las Vegas  
21 is that high but I do concede that there's perhaps as much as ten  
22 percent and I think the number of foreign visitors is something  
23 like four percent, and I assume they gamble more than the other  
24 people.

25 But when we looked at gambling -- we have a service  
26 rather than a tangible product. Tangible products can add wealth  
27 to the country because you have something left over. Of course,  
28 there is construction but with a service product, you have to ask  
29 what is the long-range effect? Is it an investment?

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1 And I mentioned training's an investment, education's  
2 an investment. So there are ways of looking at the particular  
3 service, is something this service going to make the society a  
4 more productive society in the future?

5 And I think we really have to question gaming. It is  
6 a recreation. It can have some value for people relaxing them.  
7 They go back to work and they work harder.

8 These things can happen but I don't think it's a  
9 product that we're exporting and I think a lot of our other  
10 services, products -- certainly higher education in the United  
11 States is a service product but it's an investment in the future  
12 and it is also one of our leading exports in the United States.

13 CHAIRMAN JAMES: Commissioner Wilhelm?

14 COMMISSIONER WILHELM: Those of us in Nevada are  
15 tempted to debate or correct Dr. Thompson endlessly and I shall  
16 resist. Dr. Ryan, I found your presentation extremely helpful  
17 and I was not trying to argue that we should ignore things like  
18 productivity when we try to think about economic impact.

19 I do think, however, that it's critically important  
20 that when the analysis of the externalities, as you folks call  
21 them, is done, that we consider the negative externalities of  
22 both unemployment and lousy jobs, and I don't hear that coming  
23 through most of this break-even analysis stuff.

24 I mean, if anybody doubts the negative externalities  
25 of lousy jobs, that person should spend a little bit of time in  
26 Los Angeles County. Los Angeles County is flooded, not with  
27 unemployment so much except in certain sectors, but with lousy  
28 jobs in the tourism industry, in the manufacturing industry.

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1           And throughout the economy in that county, there are  
2 very low wage, no benefit, high turnover, no training -- I mean,  
3 if you haven't met a company that doesn't do training, go to L.A.  
4 Jobs.

5           And the negative externalities are overwhelmingly  
6 apparent in that community because those kinds of companies in  
7 Los Angeles County don't provide medical benefits. The wheels  
8 came off the public health system because it got flooded. Really  
9 a corporate subsidy but that's a negative externality, I think.

10           I think people would concede, whether or not it's  
11 been measured accurately, there are enormous social costs to  
12 parents working two and three jobs and never being with their  
13 kids. There are enormous social costs to people not being able  
14 to live halfway decently. There are enormous social costs to  
15 people retiring with no pensions.

16           So the argument I was trying to make, perhaps  
17 inexactly, was that when people look at the negative and the  
18 positive externalities of the gambling industry -- and I  
19 completely agree that the negative externality that is

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1 attempting to measure along with the other externalities that you  
2 cite.

3 DR. RYAN: There's no question -- and a complete  
4 analysis of those social costs and benefits and external costs  
5 and benefits needs to look at that -- at those issues. And  
6 again, it gets back to what I was saying. Where are the dollars  
7 coming from?

8 Those industries you're talking about, I suspect --  
9 and I don't -- haven't done an analysis -- but in Los Angeles are  
10 probably industries that in five or ten years are going to be  
11 offshore anyway, that, you know, when we talk about people taking  
12 grocery money.

13 Well, the food processing industry is known to have  
14 the lowest paying jobs and probably the least benefits of just  
15 about any except maybe garment manufacturing. The -- I mean --  
16 so there are -- you have to look at where those dollars are  
17 coming from and then overlay that with your objective function.

18 If this were a group of environmentalists and we were  
19 talking about the environment, you wouldn't so much care about  
20 good jobs and job training. You care about does it pollute the  
21 environment, what's going to happen to the number of trees?

22 So we have legitimate debate and we can raise certain  
23 values to higher levels in trying to come to public policy.  
24 That's why public policy -- that's why sometimes economists are  
25 not very good and certainly can't do all the public policy  
26 because it requires us determining what are we going to value?

27 And that could very well be something that we value  
28 highly and could give it high marks. Now, but we have to be  
29 careful that in net terms the gambling industry produces better

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1 jobs than the alternatives. That's the question that needs to be  
2 answered.

3 CHAIRMAN JAMES: Commissioner Leone.

4 COMMISSIONER LEONE: I think there's a missing piece  
5 of a discussion that I want to spend a moment on. It's one of  
6 the reasons, I think, a lot of discussions about the economic  
7 impact of gambling, whether it's regional or national, miss the  
8 point because there's an artificial government-imposed  
9 characteristic of the business that produces scarcity.

10 The state lotteries are monopolies. Foxwoods Casino  
11 is an extraordinary example because there aren't 50 other  
12 casinos. The analysis of these companies is obviously based on a  
13 competitive environment in which people can't just open another  
14 casino.

15 New Jersey only has gambling in Atlantic City. If it  
16 were opened up state-wide, the value of those Atlantic City  
17 properties would be altered. And it affects the economics in a  
18 variety of ways.

19 When there's a service that people want, we generally  
20 believe that having it provided as efficiently as possible with  
21 the lowest profit margin, et cetera, is desirable and will help  
22 the overall economy.

23 If we wanted -- if we accepted gambling as a good  
24 that people wanted, we would argue that economic policy should be  
25 to introduce more competition and reduce the price of that good  
26 and the margin of what other people have lotteries and state  
27 lottery effective tax rates 70, 80 percent.

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1 We would -- if obviously, somebody else would be  
2 willing to provide a lottery and only take 50 percent out or 40  
3 percent or whatever the rest of the right numbers are.

4 We don't do that because we accept as an implicit  
5 argument the fact that there are costs that we can't measure. We  
6 don't want to -- people, they generally don't want to have  
7 gambling next door, they don't want to have it everywhere.

8 It makes the discussion of the economics, I would  
9 argue, however, very awkward because we go from place to place  
10 where this imposed scarcity means that, gee, this has been great  
11 for Atlantic City or this has been great for Biloxi or this has  
12 been great for the Pequots and Foxwoods.

13 But that question of the economic impact is  
14 completely distorted by the fact that there's a scarcity that  
15 exists that has been imposed. Liquor licenses are a little like  
16 that. I mean, that isn't the only thing. There are a lot of  
17 other things that are like that.

18 But we're not engaged in a free market, free  
19 enterprise attempt to provide this service, entertainment service  
20 as efficiently as possible. If we were, it would be, I would  
21 argue, a dramatically different looking business. And the reason  
22 we don't do that is because we implicitly assume a variety of  
23 other cost factors and it's not because we consider it an  
24 innocent business.

25 If suddenly -- well, personally, I like The Four  
26 Seasons by Vivaldi better than any piece of music and if the  
27 notion of string quartets caught on in this country and all over  
28 the country string quartets are being sprung up and being paid  
29 for out of tax revenues, from an economic point of view there

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1 would be very little future in terms of efficiency if people  
2 wanted live performances because you'd still need four musicians.

3           You could never perform it with three, apart from  
4 obviously CDs and other things that have made it much more  
5 efficient, but very few people would be complaining that this was  
6 a negative and terrible development in the country that we were  
7 tying up so many resources in string quartets.

8           On the other hand, clearly in the gambling area, we  
9 do believe there's a good reason -- some of us believe -- a very  
10 good reason to restrict it, and when we look at the reasons, we  
11 talk about a variety of things that are hard to measure, some of  
12 which are externalities we're talking about which are always hard  
13 to measure and extremely externalities in some.

14           And from a national point of view, the impact on the  
15 society and on the overall economy, we wonder about things like  
16 debt levels and savings levels, which also are important in terms  
17 of growth.

18           What I wonder about is if there's anybody on the  
19 panel who has an idea about a way one might develop a national  
20 analysis that looks at questions like debt, efficient production  
21 of the service, externalities of cost, even a model that might be  
22 developed and if it's even roughly conceivable to think about the  
23 impact of gambling in those terms because obviously no one's done  
24 that.

25           I suspect it would be very difficult but I don't know  
26 that it's impossible. People have developed models that  
27 certainly purport to demonstrate all sorts of things about  
28 various economic inputs and outputs.

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1           The defense model is a very good example because  
2 defense is sort of a strange thing in general. Obviously, we  
3 want to have it. By and large, we don't use it on any given day.  
4 It's hard to measure. Health care is another one where people  
5 have struggled with health care which is also quite labor  
6 intensive, high growth area.

7           People clearly want it. Everybody wants all the  
8 health care they can imagine getting. Does anybody have any idea  
9 of how we might -- this might be approached as far as gambling  
10 goes?

11           MR. ADER: Let me just interject a perspective. I  
12 think several economists have said Wall Street is both an engine  
13 and a mirror of the national economy and, you know, I think to  
14 some extent that's very true.

15           But when you look at the casino industry, because  
16 it's limited in the number of states in which it's legal, it's  
17 very hard to call it a national industry. It's really a national  
18 industry in the context of regional analysis.

19           And, you know, obviously I spend all of my time  
20 analyzing regions and the companies within the regions to  
21 determine a national perspective which is reflected back in the  
22 mirror Wall Street provides of public stock valuations.

23           And all we can do as analysts trying to determine  
24 whether or not the casino industry is a good investment is to  
25 create models that reflect the best, in the best way we can,  
26 whether or not the business has been a good return on capital  
27 vested.

28           And the model that we would propose to create was to  
29 look at just that because if the gaming business proves to be a

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1 good return on investment and if the gaming industry does provide  
2 confidence to investors, it's going to fund a whole series of  
3 other investments around casinos like shopping centers, like  
4 other hotel rooms, like in Mississippi where you've seen the  
5 number of hotel rooms down here go from 5,000 to 15,000.

That's a regional analysis of a national business --

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1           The trick to that would then be estimating what would  
2 happen to the other because if you increase that quantity  
3 purchased, people are consuming more gambling services as you  
4 become -- as you go into a competitive market.

5           Then you're going to have, if there are negative  
6 externalities, you're going to have bigger externalities and then  
7 you would have to make the assumptions that well, if we have one  
8 percent of -- let's use that number -- of the gambling of the  
9 population is addicted to gambling and that number might grow by  
10 X percent as we extend the demand, then, you know, we could  
11 measure those effects.

12           So it is -- it would be difficult to that because  
13 we're not sure. We've been operating in an environment -- part  
14 of the creation -- or the logic of the creation of this  
15 commission was that we didn't have gambling except in Las Vegas  
16 in this country legalized in its many forms for years and years  
17 and all of a sudden states started opening that up through  
18 competitive reasons.

19           And as they opened that up, we saw this tremendous  
20 increase and the Wall Street guys -- look at the funding of the  
21 Harrah's casinos, you know, and Wall Street makes mistakes.  
22 They're a mirror sometimes there are little cracks or distortions  
23 in that mirror.

24           And they said this is a great investment and they put  
25 money into it, \$850 million, and right now something that's mired  
26 in bankruptcy. So that -- but what happened was we had a  
27 tremendous explosion nationally as we took some of those fetters  
28 off the industry. Is that going to continue? And that's what we  
29 don't know yet and I've not seen anybody develop.

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1 I mean, we know, as economists, it's not going to  
2 continue at that rate but you could develop a model but it would  
3 be very difficult to empirically test that model, I guess is the  
4 point.

5 CHAIRMAN JAMES: In the interest of time, I'm going  
6 to ask our commissioners to try to focus our questions and see if  
7 we can get more in. We're going to go to Commissioner Loescher  
8 and then to Commissioner Bible.

9 COMMISSIONER LOESCHER: Thank you, madam chair.  
10 Sitting on the commission here, we have to deal with competing  
11 and conflicting interests across America. And we've seen the  
12 explosion of gaming with state governments; we've seen it with  
13 tribal governments and non-profit entities; and then the private  
14 sector recently.

15 And I'd like to ask Mr. Comer and Mr. Ader if they  
16 could help me with a couple questions that I have. You know, we  
17 look at the competing interests that we have and we see that the  
18 private sector has created the largest investment and explosion  
19 in the last, let's say decade or so in investment and gaming in  
20 America.

21 I'm impressed with Arthur Andersen's study, in that  
22 it reflects the capital investment that's there and equity value  
23 that's invested by stockholders across America and in gaming, at  
24 least with those publicly traded companies.

25 And I had a couple thoughts. You know, in looking at  
26 state governments and tribal governments, they bring the return  
27 right back to the government. The dollars go directly to the  
28 government. In return, the private sector, through the publicly

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1 traded companies, bringing that dollar right to the investor, to  
2 the stockholder.

3 And I'm wondering, you know, kind of musing over this  
4 phenomena, how much money is really being returned to the  
5 stockholder? You said \$6 to 7 billion, a lot of money, and  
6 compare that with how much is going to state governments and  
7 tribal governments and the yield, the net return.

8 In terms of the public policy, we see the private  
9 sector moving to expand greatly into gaming in America, but is it  
10 good public policy in terms of return to the public interest?

11 Is it better to return that money to investors and  
12 encourage the private sector, as a matter of public policy, to  
13 invest in gaming or is it better to have state governments,  
14 tribal governments, and non-profit kind of concept in gaming? Do  
15 you have a view?

16 MR. ADER: First, let me just clarify, and I've had  
17 the chance to do a calculation, as well, while I've been sitting  
18 here. You know, the \$6 billion number that, you know, I gave to  
19 you was the question of public companies that own casinos, which  
20 includes Hilton and Starwood, which are primarily hotel companies  
21 in a fight.

22 You isolate actually the total value of, you know,  
23 pure casino companies, the number's more like three and a half  
24 billion dollars, which includes the public bonds of Foxwoods,  
25 which is, you know, obviously, one of the most profitable casinos  
26 out there.

27 But in the context of how shareholders who are  
28 taking, you know, a substantial amount of risk as projects get  
29 developed in these new markets and, you know, New Orleans was an

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1 example of a market that turned out to be a bad return relative  
2 to risk.

3           There have been obviously a handful of successes and  
4 failures in the gaming industry. It's going to be a long time  
5 before Wall Street, you know, looks at the New Orleans market  
6 again as -- and steps up, willing to take risks because of the  
7 experience there.

8           But as a risk taker and as an entrepreneur and as an  
9 investor, you have a right to earn a return on your investment.

10           And part of the analysis being done right now on Wall  
11 Street is the analysis of the risk you take as an investor in the  
12 gaming industry versus other industries, and not just hotels and  
13 time share and skiing and other aspects and theme parks or movie  
14 theaters, other aspects of the hospitality industry, but all  
15 industries.

16           And why Internet stocks have done so well is because  
17 the risks are very high and to date the returns have been  
18 astronomical and it's created a flow of capital and it's created  
19 a substantial amount of jobs and, as well, you know, a new  
20 industry.

21           For the investors in the gaming industry, I couldn't  
22 imagine there being the development that there's been today in  
23 the major markets and even the smaller markets if it weren't for  
24 private sector capital and individual investors and institutional  
25 investors who have a right to earn a return on their money for  
26 the high degree of risk they're taking, given both the successes  
27 they've had and the very public failures like New Orleans.

28           CHAIRMAN JAMES: Commissioner Bible?

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1 COMMISSIONER LOESCHER: Madam chair, I still have two  
2 more things.

3 MR. COMER: Could I just -- I just wanted to try to  
4 address that in a different way because I think that there are a  
5 couple of things that maybe are misunderstood.

6 With respect to the casino gaming industry, of its  
7 funds about 12 percent of their funds go to taxes, to government.  
8 Now, when you're talking about the remainder, the net profits of  
9 the casino gaming industry, which might be 5 percent, 6 percent,  
10 those don't go out to the shareholders. They get reinvested.

11 So they take those net profits and they go to Jason  
12 and they go borrow more money and they get more equity and they  
13 build these places that you see here. So they actually take  
14 those profits four times as much goes into building.

15 And historically, dividends are not paid by casino  
16 gaming companies. And, in fact, the value that Jason is talking  
17 about is the value of the stockholding going up but they are not  
18 seeing a return of cash out of the actual funds or revenues that  
19 are coming in, then being paid out as wages and taxes.

20 COMMISSIONER LOESCHER: Madam chair, I need to --

21 CHAIRMAN JAMES: Mr. Loescher, I'm going to let you  
22 finish your two questions and then we'll go to Mr. Bible.

23 COMMISSIONER LOESCHER: Okay. I appreciate that.  
24 Thank you, madam chair. You know, somebody made the statement  
25 that the return on the investment is lower than other industries,  
26 12 to 16 percent is the gist I got from the testimony.

27 MR. ADER: Hotel industry, I said.

28 COMMISSIONER LOESCHER: Yet I look at the Arthur  
29 Andersen report, if you look in the back, billions and billions

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1 and billions of dollars are being invested in capital for new  
2 facilities and improvements to existing facilities. It's  
3 astronomical. It's impressive.

4 And I wonder, and I'm thinking of public policy and  
5 what my friends in Congress think about when they're looking at  
6 the budget.

7 I'm wondering if that -- if the tax policy that  
8 affects the investments in these facilities, you know, whether or  
9 not the investments are being benefited, the tax benefits to the  
10 investors for capital improvements are what's causing the  
11 investments in these facilities and pushing earnings.

12 And there's going to be a return to the stockholder.  
13 You know, you say you're not paying dividends today but there  
14 will be a return at some point when they sell these facilities or  
15 do something with their stock somewhere down the road. There's  
16 always a return.

17 And getting back to tax policy, I'm wondering, you  
18 know, what you think if there were changes in tax policy related  
19 to these kinds of investments, how your investors would look at  
20 that idea.

21 MR. ADER: I think, from my perspective, any increase  
22 that we would see in the current jurisdictions to taxes would  
23 have a negative perspective -- a negative impact on how we  
24 perceive the market. It's a higher degree of risk and it limits  
25 the return potential.

26 And the higher, you know, the higher the tax rate,  
27 you know, an investor can take their money and put it in the bank  
28 and make, you know, 4 or 5 percent. And to take a risk, you want  
29 some sort of premium over that, you know, quote risk-free rate.

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1           And, you know, paying a substantial portion of your  
2 profits in taxes does take away that potential to earn a return  
3 relative to the risks that they're taking and it would have, you  
4 know, severe negative implications on our flow of capital to  
5 these new markets, not just for casino development but for all  
6 other, you know, development around the casino such as your  
7 hotels and other amenities, you know, that are an important part  
8 to the, you know, to the market around the casinos which have  
9 acted as the engine.

10           COMMISSIONER LOESCHER:       Yes.       One last, madam  
11 chairman.   I suffer from the same lack of education that Mr.  
12 Wilhelm has with regard to economics but I've been around a  
13 little while, and I'm puzzled by the professors here in their  
14 talk about the, you know, no net gain kind of concept.

15           When I see the investment in gaming casinos and  
16 billions of dollars, you know, the infrastructure, all the things  
17 that are attendant to the surrounding areas and what-not, to me  
18 it's organizing wealth, concentrating it.   It creates capital  
19 improvements and opportunity because these facilities are there.

20           It improves the quality of life of the area and  
21 creates opportunity for adjacent capital improvements to these  
22 communities.   So I'm just sort of puzzled, you know, although  
23 the, you know, the jobs issue and these other issues are out  
24 there and you argue that there's no net gain, I see a  
25 concentration of wealth in certain areas in America being created  
26 by this industry.

27           And it's more apparent -- and I come from Alaska --  
28 you know, I am very impressed driving down this highway over here  
29 and seeing these huge buildings and even this building.

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1           And Native Americans on reservations, if they could  
2 have these buildings and these casinos, it would be the  
3 beginnings of organization of wealth, improvement in quality of  
4 life and creating opportunity for business and jobs. And so I  
5 really have a hard time listening to your no net gain concepts  
6 but I --

7           CHAIRMAN JAMES: Could you address that briefly?

8           DR. THOMPSON: Well, I think it's very easy to see  
9 the assets of the industry. It's very easy to see the positives,  
10 to see the jobs, to see buildings. We can question whether the  
11 casino part of the building is adding to the economy in terms of  
12 a structure but a hotel certainly adds value.

13           But we don't see the negative side. We don't see the  
14 jobs that are lost. We don't see other buildings that aren't  
15 being built with the same revenues. It's very easy to see the  
16 positive.

17           I think one of the problems in the equation of  
18 gambling is the externalities are hidden, the job transfers are  
19 hidden, but we always can get a report on the positives. It's  
20 just difficult to see the full equation.

21           Also, on the balance, many industries probably don't  
22 have -- are just break even, but our society has so much wealth  
23 that we can absorb this in the society. So the fact that there  
24 is some, you know, a negative equation on gaming does not mean  
25 our society cannot absorb the negative as it is.

26           CHAIRMAN JAMES: Certainly. Dr. Ryan?

27           DR. RYAN: I think we have to be real careful to  
28 distinguish between the local impact and the national impact.  
29 And you're absolutely right that at the local level, in some

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1 cases you can see and there are net benefits and there's no  
2 question. And I think this area of the Gulf Coast is probably  
3 one of those.

4           However, as Bill said, you've got to be careful about  
5 coming from somewhere and you can't see that where it's coming.  
6 I'll give you an example and let's take it out of the gambling  
7 industry.

8           When Disney built his resort in Orlando, Florida, we  
9 used to have a theme park, not a big Disney by any means, in New  
10 Orleans. Well, not too long after, it went out of business.  
11 Lost jobs, we lost an opportunity for the locals who couldn't  
12 afford to travel to Orlando, Florida.

13           There's a tremendous concentration of wealth in  
14 Orlando, Florida as a result of Disney's investment there. There  
15 are little pockets, of the south mostly, like New Orleans, that  
16 have seen wealth flow out of that. It's hard to measure. New  
17 Orleans is still a relatively big economy. We can't measure and  
18 it's hard to see that but it's there.

19           CHAIRMAN JAMES: Commissioner Bible.

20           COMMISSIONER BIBLE: For Drs. Ryan and Thompson, when  
21 you go about your studies and you do your equations, how do you  
22 account for illegal gaming activity?

23           DR. THOMPSON: Excuse me.

24           COMMISSIONER BIBLE: How do you account for illegal  
25 gaming activity in terms of either cost or benefits?

26           DR. THOMPSON: I'll tell you --

27           COMMISSIONER BIBLE: It would seem to me that at  
28 least on the benefit side you have readily available information.

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1 On the cost side, you have information but you don't distinguish  
2 between whether it's legal activity or illegal activity.

3 DR. THOMPSON: Okay. I'd say one thing, you have to  
4 balance the two off and say what are the spins in the illegal.  
5 It will be hard to get the information.

6 But I would just suggest when you're talking about  
7 jobs, the appearance of state lotteries that intend to put  
8 numbers games out of business are hurting communities in terms of  
9 jobs because of much -- there certainly were many good jobs in  
10 ghettos for numbers runners and the intent of the state was to  
11 put those people out of work.

12 You have to see is there money leaving the country,  
13 is there money going into crime activities that are leading to  
14 theft? We know the crime families in Las Vegas are in a home  
15 burglary business and so there were some negatives there, but if  
16 they're just spinning the money around in a different way, see  
17 how they're spending it.

18 DR. RYAN: I mean, the obvious question, do we look  
19 at those and try to look at those? It's getting data is very,  
20 very difficult. When you do surveys of residents they may tell  
21 you they have gambling problems but they're not going to tell you  
22 that if they engage in illegal gambling activity, even though if  
23 it's an anonymous survey.

24 So it's very difficult to get data but I think it is  
25 a factor. We legalize video poker in any place that has a liquor  
26 license in Louisiana. They can have three video poker machines.  
27 We legalized video poker and the major argument in that  
28 legislation was all the bars are doing it illegal anyway.

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1           There are these illegal video poker machines that we  
2 can't control so why don't we do it legalized? At least we can  
3 tax it. So there is illegal gambling industry. I think there's  
4 a parallel argument of something that hasn't been mentioned, I  
5 don't know to the extent that you've seen it.

6           There's a growing -- we're talking about -- if we're  
7 talking about the externalities involved in addictive and  
8 compulsive gambling behavior. There's a growing offshore  
9 industry in gambling that, either through the Internet or through  
10 telephone sports betting, is going to, I think, grow enormously  
11 in this country.

12           It could have very much the same external cost but  
13 without any of the benefits of gambling. And that's another  
14 thing to add into the equation that we really haven't looked at  
15 to this extent.

16           DR. THOMPSON: And I think we have to look and see  
17 who owns those offshore things and if the profits are coming back  
18 into the United States or are they going off to other countries.

19           CHAIRMAN JAMES: Bill, did you have follow-up?

20           COMMISSIONER BIBLE: No.

21           CHAIRMAN JAMES: Dr. Dobson.

22           COMMISSIONER DOBSON: Dr. Ryan, and then Dr.  
23 Thompson. Dr. Ryan, you said in your comments, if I understood  
24 you, that state regulators, state agencies and so on have  
25 historically attempted to limit the gambling venues.

26           DR. RYAN: In most cases, yes.

27           COMMISSIONER DOBSON: Yes. Whereas they have not  
28 attempted to limit golf courses, theaters, theme parks,  
29 Disneyland-type organizations and other forms of entertainment.

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1 DR. RYAN: Basically. Right.

2 COMMISSIONER DOBSON: That implies there's something  
3 bad there associated with --

4 DR. RYAN: They think there's something bad.

5 COMMISSIONER DOBSON: What is that something bad?

6 DR. RYAN: I mean, I'm not sure what goes through the  
7 mind of legislatures when they create -- I think historically --  
8 because remember, we're talking about going back hundreds of  
9 years, that legislators, public policy makers just felt, without  
10 any kind of evidence, that gambling was bad.

11 This was not something that you ought to do with your  
12 money and so they passed legislation creating it. I don't think  
13 they had a lot of data or even knowledge of addictive gambling  
14 behavior. It was just morally, religiously, except when the  
15 church did it, it was bad.

16 I don't really know the answer to that question  
17 because I don't know what was in the mind of legislators when  
18 they passed it.

19 DR. THOMPSON: In Belgium, the prime minister's son  
20 was a compulsive gambler so they made all the casinos illegal but  
21 then the king wanted to go to a casino so they, over a period of  
22 about 80, about 90 years, they permitted eight casinos that are  
23 legal to operate under a very specific set of rules.

24 So morality comes into the question. It's a general  
25 feeling. It gets into the policy making. I don't think all  
26 policy makers in Congress use cost benefit analysis and detailed

27 COMMISSIONER DOBSON: So the cultural attitude 50  
28 years ago, that gambling was dangerous, unarmful -- rather,  
29 harmful, and therefore ought to be limited --

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1 DR. THOMPSON: Limited.

2 COMMISSIONER DOBSON: -- was just based on empty  
3 perspectives on morality and not on any kind of true  
4 understanding of the culture.

5 DR. THOMPSON: No. There was -- people would  
6 understand but the understandings weren't at the sort of macro-  
7 scientific, analytical, computerized level.

8 COMMISSIONER DOBSON: Right.

9 DR. THOMPSON: People had intuition. They gathered  
10 facts, they gathered information, they went through the  
11 arguments. It was less scientific than maybe decision making  
12 could be today but even today its not.

13 COMMISSIONER DOBSON: Alright. If we have no more  
14 hard evidence, Dr. Ryan, than you're speaking of now, why don't  
15 we just turn it loose and let it go? Why don't we let everybody  
16 have fun with it? Why don't we put them everywhere? Why should  
17 there be any regulation on where they are if there is not some  
18 harmful effect somewhere?

19 DR. RYAN: Sure. I think -- I mean, that is a public  
20 policy issue and many economists say -- and I don't -- I would  
21 have no problem, as an economist or personally, with that kind of  
22 decision. Let it go, let the market determine.

23 But many people now feel that the addictive problems  
24 and the costs that come out of all that addictive behavior, now  
25 that we have a little more information on gambling as an  
26 industry, is the reason why we should not limit -- should we  
27 not --

28 COMMISSIONER DOBSON: There's the heart. Why didn't  
29 you answer my question like that?

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1 DR. RYAN: Well, because when these legislations were  
2 established I don't think that was why people put those  
3 restrictions on. I mean, the folk wisdom in Louisiana was the  
4 reason why we didn't -- Louisiana's always had -- Louisianians  
5 have always had, by legend, a propensity to gamble.

6 We, you know, we had an early state lottery that sort  
7 of put every other people's lottery out of business because of  
8 the corruption involved. But people -- the folk wisdom was we  
9 had an unholy alliance between organized crime and the Catholic  
10 Church to create restrictions against gambling in Louisiana.

11 So I don't know that there was that kind of logic

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1 DR. THOMPSON: In South Carolina. I think it's very,  
2 very negative in terms of the social cost, the compulsive  
3 gambling. There is no import except you get some Augusta,  
4 Georgia people on the state line gambling. You don't get any  
5 import of resources.

6 They're spending dollars and the people that own the  
7 machines are out of state people. The profits are leaving. I  
8 think it's extremely negative and it's probably one of the worst  
9 forms of gambling we have in the United States but it's your  
10 laboratory, if you want, to see what wide open, unrestricted  
11 gambling can do.

12 COMMISSIONER DOBSON: So last question. You would  
13 disagree with Dr. Ryan that there ought to be some regulation and  
14 limitation, and if so, there must be something negative there to  
15 regulate and limit.

16 DR. THOMPSON: Well, I don't disagree with him but I  
17 agree with what you said. There should be all of these things  
18 that gambling has positive aspects. I think it has to be limited  
19 and definitely controlled.

20 COMMISSIONER DOBSON: Thank you.

21 CHAIRMAN JAMES: Thank you. With that, I'm going to  
22 have a -- what -- just a minute. I think we do need to have a  
23 break in order to focus our time and our attention this  
24 afternoon.

25 I do want to go to Commissioner McCarthy and make  
26 sure that he gets his final question in but I want to thank our  
27 panel for the depth of the information that you've given us and  
28 the discussion that we've had.

29 If you have one final question.

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1 COMMISSIONER McCARTHY: Thank you.

2 CHAIRMAN JAMES: Certainly .

3 COMMISSIONER McCARTHY: Our two inside experts here,  
4 both from Las Vegas and both very knowledgeable about the  
5 gambling industry nationwide, but certainly with some special  
6 information about Nevada companies. You're aware that  
7 Proposition 5 is a very big issue in California, of course.

8 And for the benefit of the audience, that would  
9 authorize maybe in excess of 100 federally recognized Native  
10 American tribes to have what we call Class III gambling or  
11 general casino gambling. What do you advise your clients would  
12 be the effect on their companies in Nevada?

13 And Professor Thompson has some special knowledge  
14 about this, too, but what would be the effect on their -- I  
15 appreciate this can't be absolutely neatly compartmentalized.  
16 Some of these companies are publicly traded; some of the  
17 shareholders are in California. So how do you measure this? But  
18 do you have any comments on that?

19 MR. ADER: Well, I should clarify. I live in New  
20 York actually, but I do know that -- the Nevada companies well.  
21 You know, it's very hypothetical, you know. What it is is a  
22 risk. In our discussion with investors for the Nevada industry,  
23 particularly Las Vegas, you know, and Reno, it is a risk that's  
24 out there.

25 It has caused required returns to go up because as an  
26 investor in a Nevada company, now this is an overhang until it's  
27 resolved. It may ultimately provide investment opportunity and a  
28 positive for the equipment companies for the equipment companies  
29 that may provide devices there, but until there's a decision, a

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1 vote, and there's some clarification as to where it's going, it  
2 would be impossible to draw conclusions.

3 COMMISSIONER McCARTHY: Okay. I should have inserted  
4 that I'm told by Mr. Bible and others that probably at least 30  
5 percent of the revenues in the gambling industry in Nevada come  
6 from California gamblers and they leave somewhere over \$2 billion  
7 a year in Nevada that they don't take home again.

8 Now, I appreciate bus companies in California  
9 benefit. They take people to Nevada. And there are some other  
10 companies that will benefit. Overall picture though, it's a  
11 detriment --

12 MR. COMER: I think that there's no doubt --

13 COMMISSIONER McCARTHY: -- to California, I think.

14 MR. COMER: I think that there's no doubt, one, that  
15 right now it is impacting equity values of casino companies that  
16 have significant holdings in Nevada and pulling them down to  
17 where they otherwise might not be because of that, and that  
18 there's no doubt the 30 percent number that you used is about  
19 correct as to the amount of casino gaming revenues that Nevada  
20 derives from California residents.

21 And there's no doubt that those revenues would be  
22 decreased if there is wide-spread gaming on Native American  
23 reservations in California. I mean, that's just from an economic  
24 standpoint, that the State of Nevada, their casinos will lose  
25 revenues if, in fact, that passes.

26 DR. THOMPSON: I think it's a mixed situation. One  
27 thing, the California economy is not hurt by Las Vegas nearly as  
28 much as you think because we don't make anything and we purchase

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1 probably 90 percent of our supplies from California or through  
2 California.

3 But it is a mix. The casinos in California right now  
4 are not drawing a large number of Nevadans away and I don't think  
5 the new proposition is going to change the nature of casinos in  
6 California, except that they may attract investments and you  
7 might have some nice resorts.

8 And when that happens, we might be impacted, but I  
9 think it will be Nevada companies that will be developing the  
10 resorts.

11 COMMISSIONER McCARTHY: If I worded it to say if  
12 there were four or five Foxwoods in California --

13 DR. THOMPSON: Yes. Right.

14 COMMISSIONER McCARTHY: -- would that affect the  
15 Nevada gambling economy?

16 DR. THOMPSON: Yes, if there were very nice resorts  
17 with big hotels, you know.

18 CHAIRMAN JAMES: Since this is the national  
19 commission, I don't think we have a dog in that fight. So with  
20 that, let's take a break and we'll be back in 15 minutes.

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